# Paraísos Fiscales and Wealth Taxation

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**Abstract**

The recent reintroduction of the wealth tax in Spain resulted in regional governments exercising their powers to change wealth tax rates. Although most regions levied top tax rates of in excess of 2.5%, Madrid did not tax wealth, resulting in a tax haven internal to Spain. This decentralized wealth taxation provides us with a unique opportunity to study the mobility of taxable wealth. We exploit administrative data on individual wealth tax returns, along with longitudinal data on individual capital income tax returns and residential locations. Exploiting a generalized difference-in-differences design, we find that regional wealth taxes substantially influence the location of taxable wealth.

By four years following the decentralization, the share of wealth tax filers and the share of taxable wealth in Madrid declined by approximately 7%. Then, exploiting an individual location choice model, we find that a one percentage point increase in the net-of-tax rate for a given region increases the probability of relocating wealth to that region by 8 percentage points. The effect of wealth taxes on mobility are largest for older individuals, but does not depend on the amount of real estate wealth. We provide suggestive evidence that the relocation of wealth is driven by tax evasion rather than real relocation. Our results have important policy implications for the structure of wealth taxes as recently proposed in several countries.